

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

PPE0054 – BASIC MACROECONOMICS
(Foundation in Business)

29 MAY 2019
2.30 p.m.- 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **TEN** pages.
2. Answer **ALL** questions in **Section A** and **B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the Answer Booklet.

SECTION A: MULTIPLE CHOICE QUESTIONS [30 MARKS]

Instructions: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. A barter system of payment is _____.
 - A. similar to a money system of payment because both require a double coincidence of wants
 - B. different from a money system of payment because the barter system is a better unit of account
 - C. similar to a money system of payment because both are used as stores of value and units of account
 - D. different from a money system of payment because money does not require a double coincidence of wants
2. Jaselyn received an excellent reward of RM2,000 for academic achievement. She deposits her RM2,000 into a local bank so that she can pay for her school fees next year. This is an example of money serves as _____.
 - A. barter
 - B. store of value
 - C. unit of account
 - D. medium of exchange
3. When Jasmine deposits RM500 cash into her saving deposits at CIMB bank, _____.
 - A. M1 decreases
 - B. M2 decreases
 - C. M1 does not change
 - D. M1 and M2 both increase
4. RHB bank has RM8 million in deposits and RM800,000 in reserves. If the required reserve ratio is 10%, the bank's excess reserves are equal to _____.
 - A. zero
 - B. RM80,000
 - C. RM800,000
 - D. RM8.8 million
5. Which of the following would most likely cause an increase in the quantity of money demanded?
 - A. A decrease in price level.
 - B. A decrease in the interest rate.
 - C. A decrease in the nominal income.
 - D. None of the above.

Continued...

6. Assume there is no leakage from the banking system and that all commercial banks are loaned up. The required reserve ratio is 18%. If Bank Negara Malaysia (the central bank of Malaysia) sells RM10 million worth of government securities to the public, the change in the money supply will be _____.
- A. – RM1.8 million
 - B. – RM8.2 million
 - C. – RM55.56 million
 - D. – RM12.20 million
7. Inflation is when the prices of goods and services increase. Which of the following statements refers to mild inflation?
- A. The prices skyrocket more than 50% a month.
 - B. The demand is rising but the supply is constant.
 - C. The average price level would increase up to 5%.
 - D. None of the above.
8. If John is given 9% interest rate on his savings and the inflation rate is 5%. What is the real interest rate for John?
- A. 4%
 - B. – 4%
 - C. 9%
 - D. 40%
9. Which of the following describes cost-push inflation?
- A. There will be an increase in money supply.
 - B. Firms decrease prices when they face rising production costs.
 - C. It occurs when the increasing costs of production push up the general price level.
 - D. None of the above.
10. _____ refers to price of all goods labelled to prevent producers from over-charging the customers.
- A. Rationing
 - B. Price tagging
 - C. Price pegging
 - D. Anti-hoarding campaign
- 11.

Not in labour force	30,000
Unemployed	15,000
Employed	42,000

Exhibit 1

Based on *Exhibit 1*, what is the labour force participation rate?

- A. 50.00%
- B. 65.52%
- C. 48.28%
- D. None of the above

Continued...

12. A worker who is laid off because there is a recession and gets rehired three months later when the expansion begins will experience _____ unemployment.
- A. natural
 - B. cyclical
 - C. frictional
 - D. structural
13. All of the statements refer to the costs of unemployment to the unemployed **EXCEPT** _____.
- A. suffer loss of status
 - B. the value of human capital reduces
 - C. people enjoy fewer goods and services
 - D. long period of unemployment reduces the value of human capital
14. When there is an unexpected increase in the inflation rate in the short run, it will lead to _____.
- A. a lower unemployment rate
 - B. a higher unemployment rate
 - C. a decrease in aggregate demand
 - D. none of the above
15. If Malaysia starts to export a good that had previously not been produced in Malaysia, the market price of the good in Malaysia _____.
- A. falls
 - B. rises
 - C. remains constant
 - D. There is not enough information to answer the question because we need to know if the market price in Malaysia had been above or below the world market price before trade began.
16. North Korea opens its doors to trade with China. China has a comparative advantage in the production of machinery. Hence, once trade occurs, North Korean consumers will buy _____ machinery and pay _____ before.
- A. less; a lower price than
 - B. less; a higher price than
 - C. more; a lower price than
 - D. more; a higher price than
17. If the United States imports purses, then the quantity of purses produced in the United States will _____ and the quantity of purses purchased by consumers in the United States will _____.
- A. increase; increase
 - B. increase; decrease
 - C. decrease; increase
 - D. decrease; decrease

Continued...

18. Which type of trade restriction policy raises the most revenue for the government?
- A. tariff
 - B. quota
 - C. voluntary export restraints
 - D. If they are set at the same level, all of the above raise the same amount of revenue.
19. Which of the following statements is **FALSE**?
- A. The production possibilities curve shows the combinations of goods that can be consumed by a nation before trade begins.
 - B. The production possibilities curve shows the combinations of goods that can be consumed by a nation after trade and specialisation begins.
 - C. The production possibilities curve shows the combinations of goods that can be produced by a nation before trade begins.
 - D. The production possibilities curve shows the combinations of goods that can be produced by a nation after trade and specialisation begins.
20. If the slopes of the production possibility frontiers involving corn and wheat in the United States and Canada are equal _____.
- A. specialisation does not benefit either country
 - B. the opportunity cost of producing wheat is less in Canada
 - C. the opportunity cost of producing corn is less in the United States
 - D. equal amounts of corn and wheat will be produced in both countries
21. Which of the following is **NOT** an export?
- A. Sales of cars abroad
 - B. Purchase of foreign components
 - C. Sales of financial services overseas
 - D. Students from abroad studying in your country
22. Which of the following can be used to improve the trade position?
- A. Increase tariffs
 - B. Increase income tax
 - C. Increase interest rates
 - D. Reduced government spending
23. Which of the following would contribute positively to the U.S. balance of trade?
- A. Sale of a U.S. Treasury bill to a Japanese bank.
 - B. Purchase of wheat by a Japanese firm from a U.S. grain firm.
 - C. Purchase of an airplane by a U.S. airline made by the European firm.
 - D. Sale of a flight ticket from Rome to New York by a U.S. airline, to an Italian student.

Continued...

24. If all international transactions were included and measured accurately, then the statistical discrepancy would be _____.
A. zero
B. the short-term capital flows only
C. negative if the country were running a trade deficit
D. positive only if the central bank intervened to support the currency
25. The account in the balance of payments that includes payments related to the purchase and sale of assets and to borrowing and lending activities is called the _____ account.
A. credit
B. capital
C. current
D. portfolio
26. In a floating exchange rate system, _____.
A. the balance of payments should always be in surplus
B. the government intervenes to influence the exchange rate
C. the balance of payments will always equal the government budget
D. the exchange rate should adjust to equate the demand and supply of the currency
27. One effect of an appreciation of the Malaysian Ringgit is that _____.
A. Malaysian incomes decrease
B. Malaysians can buy imports more cheaply
C. it increases the demand for Malaysian labour
D. foreigners will demand for more Malaysian exports
28. A consequence of China's policy of keeping the yuan at an exchange rate that is artificially weak relative to the dollar is _____.
A. very cheap American imports for Chinese consumers
B. a persistent and increasing trade surplus of China with the United States
C. the expectation that the yuan will continue to appreciate relative to the dollar
D. none of the above
29. Suppose there is a decrease in U.S. income and British income does not change. We would expect to see _____.
A. both the dollar and the pound depreciate
B. both the dollar and the pound appreciate
C. the dollar depreciates and the pound appreciates
D. the dollar appreciates and the pound depreciates
30. If, under a fixed exchange rate system, the dollar price of Euro is below its equilibrium level, then the _____.
A. Euro is overvalued
B. dollar is overvalued
C. Euro has appreciated
D. dollar has depreciated

Continued...

SECTION B: STRUCTURED QUESTIONS [70 MARKS]

Instructions: Answer **ALL** questions in this section. Write your answers in the Answer Booklet.

Question 1

Part A

Exhibit 2 shows the demand and supply schedule for money in an economy.

Nominal interest rate (%)	Quantity of money demanded (millions of dollars)	Quantity of money supplied (millions of dollars)
5	7	5
6	6	5
7	5	5
8	4	5
9	3	5
10	2	5

Exhibit 2

- a) Plot a graph of money demand curve and money supply curve based on *Exhibit 2*. Label them as MD^0 and MS^0 . (6 marks)
- b) What is the equilibrium nominal interest rate? (1 mark)
- c) Suppose that the central bank conducts an open market purchase \$400,000 worth of government securities from First Aim Bank and cause the money supply increases to \$7 million. Show the shift of the money supply curve on the same graph that you have drawn on part (a). What is the new equilibrium nominal interest rate? (2 marks)
- d) Before the action of central bank in part (c), First Aim Bank has \$800,000 of deposits, \$160,000 of required reserves, \$40,000 of excess reserves and \$600,000 of loans.
 - i. What is the required reserve ratio? (2 marks)
 - ii. Prepare the balance sheet of First Aim Bank based on the information on part (d). (2 marks)
 - iii. After the action of central bank in part (c), what is the total required reserves and excess reserves of First Aim Bank? (4 marks)
 - iv. Assuming that First Aim Bank loaned out all of its excess reserves. Show the total amount of required reserves, loans and deposits in a new balance sheet. (3 marks)

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Part B

- a) Consumer Price Index (CPI) is the best known indicator to measure inflation. The household of Jane buys 3 bottles of milk and 5 loaves of bread. The prices of these goods in years 2016, 2017 and 2018 are given in *Exhibit 3*.

Year	Price of a bottle of milk (RM)	Price of a loaf of bread (RM)
2016	4	2
2017	6	3
2018	10	4

Exhibit 3

Based on *Exhibit 3*, calculate the following,

- consumer price index (CPI) in Year 2018, using Year 2016 as the base year. (3 marks)
 - consumer price index (CPI) in Year 2017, using Year 2016 as the base year. (3 marks)
 - rate of inflation between Year 2017 & 2018. (1 mark)
- b) Describe **THREE** types of unemployment. (3 marks)

[TOTAL 30 MARKS]

Question 2

Consider two countries, Estonia and Finland, each capable of producing cell phone and motor engine. Assume that the number of labour hours required to produce a cell phone and a motor engine in both countries is as shown in *Exhibit 4*.

	Cell phone	Motor engine
Estonia	20 hours	5 hours
Finland	18 hours	4 hours

Exhibit 4

- a) Suppose each country has a total of 3,600 labour hours to devote to the production of the two goods. Calculate maximum number of cell phones and motor engines that each country could produce based on labour hours given. Reproduce *Exhibit 5* in the answer booklet and fill out your answer accordingly.

	Cell phone	Motor engine
Estonia		
Finland		

Exhibit 5

(2 marks)

Continued...

- b) Draw the production possibilities frontier for each country. Put quantity of cell phone on the horizontal axis and number of motor engine on the vertical axis. Be sure to identify the intercept values on your graphs. (4 marks)
- c) Suppose each country allocates 55% of its labour hours to motor engine production and 45% to the production of cell phones. Reproduce *Exhibit 6* in the answer booklet and show the output of the two products of each country.

	Cell phone	Motor engine
Estonia		
Finland		

Exhibit 6

- d) If the two countries do not trade and consume whatever they produce, identify the current production and consumption point for each country on their respective production possibilities frontiers as in b). Label Estonia's consumption point "E" and Finland's consumption point, "F". (2 marks)
- e) Suppose the two countries specialise and trade. Who should produce cell phones and who should produce motor engine? Explain your answer. (1 mark)
- f) Reproduce *Exhibit 7* in the answer booklet and show the output of each country after specialisation. (4 marks)

	Cell phone	Motor engine
Estonia		
Finland		

Exhibit 7

- g) Did specialisation increase the combined output for the two countries without any increase in resources? (2 marks)
- h) Suppose Estonia and Finland agree to trade so that in exchange for 400 motor engines, the exporter of motor engine receives 90 cell phones. Reproduce *Exhibit 8* in the answer booklet and show the consumption bundle of each country after trade. (0.5 mark)

	Cell phone	Motor engine
Estonia		
Finland		

Exhibit 8

- i) Show the consumption points after trade on each country's production possibilities frontier. Label these points "X" for Estonia and "Y" for Finland. (2 marks)
- j) Has trade made the two countries better off? Explain your answer. (1 mark)

(1.5 marks)

[TOTAL 20 MARKS]

Continued...

Question 3**Part A**

Exhibit 9 depicts the particulars in the balance of payments of Happy Nation.

Particulars	Millions of \$
Exports of goods	1,545
Imports of goods	1,305
Exports of services	490
Imports of services	365
Income receipts (investment income)	410
Income payment (investment income)	525
Unilateral transfers	-70
Capital account balance	-180
Errors and omissions	-30

Exhibit 9

Based on *Exhibit 9*,

- calculate the balance of trade. (1.5 marks)
- calculate service balance. (1.5 marks)
- calculate the current account balance. (2.5 marks)
- calculate net change in international reserves for Happy Nation. (2.5 marks)
- Give **TWO** examples of unilateral transfers. (2 marks)

Part B

Ryan is going on a vacation. He surveyed for accommodation and decides to stay in a nice hotel that costs \$166 per night. Ryan has brought £1,250 with him. The exchange rate is £1=\$1.45.

- How many nights can Ryan stay there? (2 marks)
- Ryan decides to stay for 4 nights. On his way back to the U.K., the exchange rate changes. It is now £1=\$1.25. How much money does he bring back home in pounds? What is the difference between what Ryan brings back, and what he would have brought back if the exchange rate did not change? (5 marks)

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Part C

Exhibit 10 depicts the demand and supply of pound in the foreign exchange market.

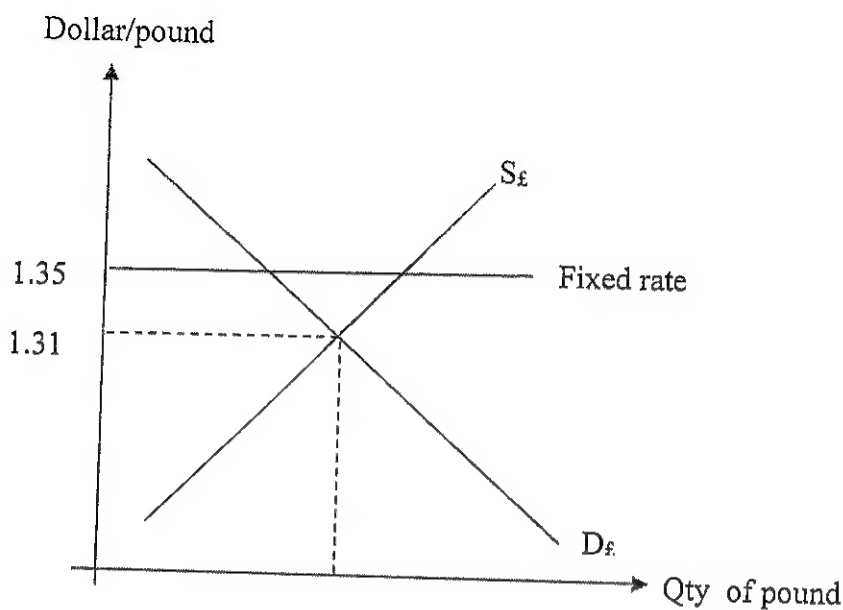


Exhibit 10

Based on *Exhibit 10*, if the exchange rate for pound is fixed at $\text{£}1 = \$1.35$,

- has the pound been overvalued or undervalued? (1 mark)
- would there be a surplus or shortage of pound in exchange for the U.S. dollar? (1 mark)
- to maintain the exchange rate at \$1.35 per pound, will the U.K. central bank need to buy pound in exchange for dollar or sell pound in exchange for dollars? (1 mark)

[TOTAL 20 MARKS]

End of Paper